



## *...Towards and Entrepreneurial Economy*

### **House Commerce Committee**

#### **Public Testimony on the Jobs for Michigan Fund Proposal (HB 5047) and the Michigan Tobacco Settlement Securitization Proposal (HB 5048)**

*Submitted by:*

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I wish to thank Chairperson Huizenga and members of the House Commerce Committee for the opportunity to again address the Committee and to provide testimony on the House Commerce Committee version of the Jobs for Michigan Fund (JFMF) proposal. My name is Mark H. Clevey and I am the Executive Director for the Small Business Foundation of Michigan and the Vice President for Entrepreneurial Development, Small Business Association of Michigan (SBAM).

SBAM strongly believes that Michigan needs to effectively stimulate the formation of a robust entrepreneurial economy in our state. Towards that end, we have thoroughly reviewed House Bills 5047 and 5048 for the proposed Jobs for Michigan Fund and related securitization of the Tobacco Settlement funds. We are very pleased with the intent and content of both House Bills 5047 and 5048 and commend the sponsors on a *job well done*.

We strongly support the concept of securitizing the Tobacco Settlement Fund as a capital formation strategy. We are very encouraged by your efforts to make project awards based on merit rather than set-asides. We also commend your strong leadership in making commercial merit equal to scientific and technical merit in the grant review process. We are very pleased with your leadership in encouraging increased federal SBIR and STTR grants in the state for commercially viable projects. We are especially pleased with your efforts to encourage the transfer of university technology to industry through effective university – small business collaborations.

Finally, we strongly support the inclusion of Medical Informatics and Biotericals in the program and encourage the committee to resist any and all efforts to eliminate these topic areas. Sources as diverse of President Bush, Newt Gingrich and Hillary Clinton all note that health care costs can be reduced by 30% or more with the effective application of information technologies to Health Care. In Michigan, Medical Informatics has the potential to lower health care costs for Michigan citizens and inject capital into our economy while also stimulating new business activity and diversification in our information technology sectors.

With regard to Biotericals, virtually everything in this room is made from oil – most of which is imported from countries that hold our hard won Democratic Freedoms, values and citizens in contempt. Biotericals allows us to improve our energy and national security by mining our formidable agricultural and industrial prowess for not only bio-based fuels but for a wide range of bio-based materials that can cost effectively replace oil-based plastics, fibers and chemicals.

We recommend, however, that rather than breaking these topic areas out as two additional “competitive edge technologies” both Medical Informatics and Biotericals simply be included as eligible research and commercialization topics under the four existing thrust areas. For example, we recommend that Medical Informatics be included under the Life Sciences definition and Biotericals be included under the Advanced Automotive, Manufacturing and Material Technology definitions. Towards this end, we have provided definitions for both Medical Informatics and Biotericals, for your consideration, as an Attachment to this testimony.

In closing, we again wish to thank Chairperson Huizenga, Representative Dillon and members of the House Commerce Committee for the refreshingly enlightened and bi-partisan approach you have taken to stimulate and Entrepreneurial Economy in our state. We applaud your leadership and look forward to working with you to ensure that this important effort meets its objectives in the future. Within the Legislature, several economic development initiatives are reaching confluence. One of these issues is a new SBT *Transferable R&D Tax Credit* which SBAM has proposed to augment and support this committee’s Jobs for Michigan Fund initiative and the related securitization of the Tobacco Settlement Fund (See Attachment II). SBAM is also prepared to submit the names of several eminently qualified entrepreneurs for consideration as members of the 17 member Board that will oversee the program.

Thank you.

# Attachment I

## Competitive Edge Technology Definitions

**“Biotericals”** means the application of biological sciences, in combination with process engineering, to create bio-based industrial products (such as fuels, chemicals, lubricants, plastics and building materials) that can effectively compete with fossil fuel based and derived products and processes. For example, the Biotericals definition would improve the economic viability of Alternative Edge Technologies funded under the program by allowing allow byproducts from biofuel production (currently allowable under “Alternative Energy Technology) to be used as a feedstock for additional breakthrough bio-based technologies, products and/or processes (currently not allowable under the narrow competitive edge technology definition).

**“Medical Informatics”** means the application of information systems – such as those used by the automotive industry to manage its suppliers and supply system – to manage the information of health care delivery, reduce medical errors, provide decision support for clinicians, and extract outcome and public health information from large datasets. Medical Informatics includes (A) Mechanisms to integrate new information into existing knowledge bases, and software to extract and analyze information from large patient record databases (i.e., secondary data aggregation); (B) Development of organizing and synthesizing systems that closely match specific health problem areas to help health care providers manage information better; (C) Systems, devices, or programs that facilitate utilization of electronic medical record systems in clinical practice, for such functions as chart entry, ordering, scheduling, decision support and reduction of errors; (D) Projects relevant to the informatics of disaster management; and (E) extraction, synthesis and application of human genome information into health care management systems.

## **Attachment II - Transferable R&D Tax Credit**

To foster entrepreneurialism and commercialization of publicly funded successful research and development results, SBAM is calling upon the State to enact a new *Transferable R&D Tax Credit*. Under a Transferable R&D Tax Credit, the dollar value of the research conducted by a cutting-edge small business entrepreneur would generate a Transferable R&D Tax Credit. The Transferable R&D Tax Credit could then be transferred to one or more **third parties** that invest in the **commercialization of the successful R&D results in Michigan**. The Transferable R&D Tax Credit would impact four distinct groups:

1. Small business entrepreneurs generate most of the new technology, jobs and growth in the economy – they are the engines of economic prosperity. Many, if not most Michigan cutting-edge small business entrepreneurs, fall below the threshold and pay little if any Single Business Taxes. They do pay lots of other taxes, however as well as significant amounts of money to research and develop breakthrough technology innovations. Many of these firms are starving for capital to commercialize their breakthrough technology innovations.
2. There are also numerous small to medium sized manufacturers in the state who: (a) can't offshore their processes; (b) need new products to stay competitive; and, (c) can't afford either research and development nor the start-up costs associated with the commercialization of new breakthrough products. A small business entrepreneur can transfer the Tax Credit to one or more Michigan manufacturers who will (a) purchase a license to the technology; and, (b) commercialize the successful research results in the form of new breakthrough technology innovations. The Tax Credit will offset the manufacturers start-up costs associated with the commercialization of the new breakthrough products. The cutting-edge small business entrepreneurs will become a new and valued part of the Michigan Manufacturer's supply chain. The Michigan Manufacturer will increase sales and become an attractive investment opportunity for investors.
3. Large manufacturers are typically targeted by traditional R&D Tax Credits, even though the manufacturing of the resulting new products will most likely be off shored.
4. Third-Party Investors traditionally not invest in R&D but do invest in companies that are in the ramp-up phase of commercialization of breakthrough technology innovations.

SBAM recommends that the credit be applied to direct and indirect costs associated with the following research activities: (a) The dollar of Federal SBIR and STTR grants<sup>1</sup> that have a Third-Party Commercialization Cash Match<sup>2</sup>; (b) The value of Third Party Commercialization Cash Match funding under SBIR and STTR grants; (c) Internal R&D (R&D paid for with internal company assets versus third-party sponsorship); and (d) License fees for the purchase of licenses to university technologies that serve as a foundation for follow-on R&D. SBAM recommends that the value of the Transferable R&D Tax Credit be equal in value to a conventional, non-transferable R&D Tax Credit that is traditionally earmarked for large to medium sized manufacturing companies.

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<sup>1</sup> Federal Small Business Innovation Research (SBIR) Program: (a) SBIR Phase I: Feasibility study; Proof of Concept research (SBIR – 6 month project up to \$100K. STTR – 12 month project up to \$100K). (b) SBIR Phase II: Concept Development; full R&D (2-year award up to \$500K). Phase IIB: Gap funding; Supplemental research to fit investor needs (NSF support - \$50K to \$250K, Investor support - \$100K to >\$750K). (c) Phase III: Commercialization stage; Commercial application (Private funding support).

<sup>2</sup> The federal SBIR/STTR program requires that R&D grants demonstrate scientific, technical and commercial "merit." At the Phase I level commercial merit is demonstrated by a short discussion in a 25 page proposal. At the Phase II proposal level "commercial merit" is demonstrated in two ways: (a) A detailed Commercialization Plan that is reviewed by a minimum of three Commercialization Plan Reviewers; and, (b) An OPTIONAL Third-Party Cash Match (\$ .25:\$1.00). Generally, those with Third-Party Cash Match receive "priority of funding" and are eligible to receive additional R&D dollars and commercialization training and assistance from the funding agency. The Third-Party Cash Match option is based on the premise that private sector interest and due diligence - in the form of Third-Party Match - is the best mechanism for determining real commercial merit.